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**Network Capital, Political Capital, and Bazaar Economy  
in Rural Yunnan**

**Family Business Survey in a Periodical Market  
in Banqiao Township, Shilin County**

by

**Hiroshi SATO**

2000



**Network Capital, Political Capital, and Bazaar Economy in Rural Yunnan**  
**----Family Business Survey in a Periodical Market in Banqiao Township, Shilin County----**

**Hiroshi Sato**

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**Abstract**

This chapter examines the profile and behaviors of family businesses (*getihu*) in a rural periodical market in Yunnan Province. Focus is on the risk avoidance strategy adopted by family business. C. Geertz's study on the bazaar economy in Java is used as a reference framework. From the analysis on factors influencing the choice of risk avoidance strategies --the risk spreading strategy or the persistent trade relation strategy--, family businesses with network capital --entrepreneurs who have experience as a party member/grassroots cadre or experience working in formal economic organizations-- were identified as a group who adopt the persistent trade strategies. They strive to reduce risks taking advantage of the socio-political networks cultivated through their experience in the office. Moreover, family businesses with political status could be singled out as a characteristic group, which is filled with entrepreneurship. One of the important driving forces of entrepreneurship in the bottom end of the rural market arises from within the institutional/organizational framework of the party/state rule, or the legacy of the Mao era.

## Section 1 Issues and Survey Areas

### 1-1 Issues and survey method

#### *Issues*

This chapter examines activities of individual/family nonfarm businesses(*getihu* hereinafter referred to as family businesses) carrying on business in rural periodical markets (*jishi*) based on field surveys conducted in Shilin (石林) country, which is a rural suburb in Kunming, Yunnan Province, from 1995 to 1998<sup>1</sup>. The issues to be examined in this chapter are largely divided into two.

(1) The first issue is to clarify the socioeconomic characteristics of peasants who enter family businesses. Peasant family business activities were strictly restricted in the Mao era. After the economic reform, however, it has developed rapidly. Traditional rural periodical markets resurged in many areas, and, adding to that, a number of new marketplaces emerged. The survey areas for this chapter are no exceptions. This chapter examines how the profile of family businesses active in the survey areas' rural periodical markets differs from the characteristics seen in Chinese rural area in general.

(2) The second issue to be examined is the behavior of family business entrepreneurs in an underdeveloped market economy environment. The analysis focuses on the question how small family business entrepreneurs try to reduce the management risks. A discussion by K. Geertz on the bazaar economy of Java is quoted as the framework of reference for the analysis. Underdevelopment of market economy, in this context, implies the following three points. The first point is the existence of significant information problems, uncertainties, and risks in the market. This is a basic problem common to rural markets in developing countries. The second point is underdevelopment of formal institutional arrangements for the market transactions. This was caused by the combination of two problems that are different in nature. One of the problems is the development issue, a problem which stems from the fact that China is still a developing economy, and the other is the transition issue, a problem which stems from the fact that China is on its way of moving from a planned economy to a market economy (see the introductory chapter). The third point is an issue inherent in the survey area, namely the problem that construction of marketplaces and a market control system by the administration have not caught up with the rapidly expanding market transactions in rural areas that began in the 1990s.

### *Survey method*

Bearing the aforementioned issues in mind, the author conducted field work in two townships in Shilin county, Banqiao(板橋) and Guishan(圭山), two times in December of 1997 and 1998, where a number of interviews with peasants and family business entrepreneurs as well as officials of administrative agencies, such as the Business Administration Bureau, were carried out. In addition, interview surveys were conducted at wholesale markets at the county seats of Shilin county and Yiliang(宜良) county, which is the neighboring county to Shilin. These wholesale markets are very important arenas of purchasing activities for family business entrepreneurs in the survey areas. Moreover, a sampling survey on the family businesses in Banqiao township was conducted in order to be used in the quantitative analysis. This survey was designed and conducted in collaboration with the Yunnan Academy of Social Sciences (YASS), in March 1998 (hereinafter referred to as Banqiao family business survey). 100 samples were selected from 347 family businesses in the periodical market of Banqiao, using the family business register of the township's business administration bureau. The samples were distributed according to the proportion of the business categories (retailing 56%, manufacturing 14%, restaurant and foodstuffs 17%, other services 13%).

### **1-2 General conditions of the survey areas**

Shilin county is an agricultural/stock raising zone whose economic level is in the lower middle range in Kunming. The basis of the rural economy is grain cropping and tobacco growing as well as stock farming centered around goats. Banqiao township is situated in a basin to the south of the county seat. Rice cropping is possible and principal roads go through Banqiao, so it is a township relatively affluent with the developed commerce in the county. The periodical market in Banqiao is the second largest in the county, next to the one in the county seat. Guishan township is situated in the mountains at the eastern extreme of the county. It is a relatively poor township that receives financial support from Yunnan Province and Kunming. The main farm products are corn, Irish potatoes, and tobacco. The periodical market in Guishan plays the role of distribution center of agricultural products and handicraft products from surrounding villages.

There used to be 22 periodical markets in Shilin county at the beginning of the 1940s, but the

number dramatically decreased after the Collectivization in the 1950s (dropped to 10 in 1956 and 6 in 1964). In the period of the Cultural Revolution, the frequency of opening the market was limited to once in 10 days, and the variety of goods allowed to be traded was very small. In the Deng era, however, the rural periodical markets started to develop again taking the advantage of the removal of an embargo on market transactions of grains in 1979 (see table 1). As the market trade expanded, the frequency of opening the market increased from once every week to twice, sometimes three times every week. At present, the periodical market in Banqiao township is held every Tuesday and Friday, and the periodical market in Guishan township is held every Sunday.

**Table 1** Development of Rural Periodical Markets in Shilin County

	Number of Periodical Markets	Participants per market day (1000 people)	Annual Transactions (million yuan)	Number of family business entrepreneurs (households)
1941	22	---	---	---
1956	10	---	---	---
1964	6	---	---	---
1978	6	3.2	1.05	8
1980	8	4.5	2.91	11
1985	9	9.1	15.19	2,573
1990	11	22.7	27.12	2,920
1995	12	37.7	151.42	3,925
1998	12	50.0	196.93	5,206

Source: Interview at the Shilin county business administration bureau (1997, 1998).

## **Section 2 From Peasant to Merchant: Profile of Family Businesses in Banqiao**

### **2-1 Characteristics of entrepreneurs — comparison with national survey**

Next, the profile of the family businesses active in the periodical market is described based on the Banqiao family business survey.

The national survey by the National Committee on Economic System Reform(NCESR) and the National Bureau of Business Administration Bureau(NBBA) conducted from November 1991 to February 1992 provides valuable data for comparing the profile of family business entrepreneurs in Banqiao with the nationwide characteristics. This survey analyzed family businesses and

private enterprises (*siyingqiye*) in the entire country based on business registry (hereinafter abbreviated as the national business survey). The major outcomes of the national business survey is summarized in NCESR and NBBA (1993). Table 2 extracts the basic characteristics of family businesses with rural household registration status from the national business survey, and compares and contrasts with the result of the Banqiao family business survey.

**Table 2** Comparison of Entrepreneurs' Characteristics — Banqiao Township and National Trend  
Unit: %, numbers in ( ) are numbers of households

	Banqiao family business survey			National business survey
	All the samples	Samples with Business registry	Samples with rural household registration and business registry	
Age				[samples with rural household registration]
35 years old or less	46.0	47.2	51.9	47.7
36-45 years old	25.0	27.0	24.1	30.7
46-55 years old	18.0	14.6	15.2	13.7
56 years old or more	11.0	11.2	8.9	7.9
	(100)	(89)	(79)	(30,134)
Educational level				[samples with rural household registration]
Elementary school or less	49.5	45.5	43.6	37.8
Junior high school level	38.4	40.9	43.6	48.2
Senior high school level	12.1	13.6	12.8	13.8
Higher education	0.0	0.0	0.0	0.2
	(99)	(88)	(79)	(30,225)

Political status				[samples who conduct business in rural area]
Party member	4.1	4.6	3.9	9.6
Communist youth league member	14.3	14.9	16.9	13.1
	(98)	(87)	(77)	(23,831)
Career before opening business				[samples with rural household registration]
Township/village cadre	9.0	7.9	8.9	--
Village cadre	--	--	--	10.7
Manager of TVEs	4.0	4.5	5.1	1.6
Employee of TVEs	--	--	--	4.3
Employee of the state marketing department and the supply and marketing cooperative (SMC)	0.0	0.0	0.0	--
Military service	3.0	3.4	3.8	3.6
Long-term(more than 1 year) experience in living outside the home township	25.0	23.6	26.6	--
Working away from home village	--	--	--	9.2
	(99)	(89)	(79)	(30,361)

Note: Among all 100 samples, 89 households have business registry and 79 households are of rural household registration status.

Source: Banqiao family business survey, NCESR and NBBA (1993), pp.120, 122-123, 127.

First of all, there is no significant difference in the age distribution between Banqiao and the national trend. The level of educational background in Banqiao is lower than the national average, which is considered to be a reflection of the regional educational level in general. Regarding the political status, the ratios of communist youth league members are approximately the same, but the ratio of party members in Banqiao is lower than that of the national average. The definition of careers before opening businesses differs in the two surveys, but it is safe to assume that the ratio of grassroots cadres and military service backgrounds are almost the same.

The ethnicity, household registration status, and home village (place of household registration) of the family businesses in Banqiao are as follows. Discussing ethnicity first, it is noted that Han ethnicity accounts for 90 and other ethnicities for 7 of the households (unknown for 3 households).

This measures up to the ethnic makeup of the township, which is approximately 90% Han ethnicity (Lunan county gazetteer, p.109). By household registration status, there are 88 households with rural household registration status and 12 households with urban household registration status; the majority of the family businesses are peasant origin<sup>2</sup>.

What is interesting here is the rate of experience outside the home village. According to the national business survey, 9.2% of the family business entrepreneurs has experience in working away from their home village. According to the survey by the Institute for Rural Development, CASS, it is estimated that the ratio of rural labor force working away from the home village was approximately 15% in 1993 (Knight and Song 1999, p.263). Thus, the ratio of family business entrepreneurs who have experience with working away from the home village is not particularly high on the national level. On the other hand, in the Banqiao family business survey, the ratio of family business entrepreneurs with long-term (more than one year) experience in living outside the home township reaches approximately 25%. This indicates that working and living away from home --accumulation of human capital in a broad sense-- is an important source of entrepreneurship in inland, mountainous areas such as the survey townships.

## **2-2 Self-employed and peasant-origin characteristics**

Family businesses in Banqiao are very small in size, and have strong self-employed characteristics. The numbers of family business employees in Banqiao are distributed as follows: 31 households hire 1 worker, 39 households hire 2 workers, and 10 households hire 3 or more workers. Among these, only 13 households hire workers other than household members. Moreover, in the case of family businesses with two employees, the majority of the businesses are run by married couples. The breakdown of the cases where workers other than household members are employed is as follows: 5 households hire family members and relatives, 6 households hire household members and non-relatives, and 2 households hire household members, relatives, and non-relatives. There are only 8 cases where non-relative labor force is hired.

The net farm income ratio (the ratio of the income from farming out of the total cash-based net income) of the 79 households with rural household registrations is distributed as follows: 14 households with a ratio of 0%, 14 households with a ratio of less than 24%, 9 households with a ratio of 25 to 49%, 28 households with a ratio of 50 to 74%, and 7 households with a ratio of

75% or more (unknown for 7 households). While a little over 40% of the households have a net farm income ratio of 50% or more, a little under 20% have scarcely any farm income at all.

The size of the cultivated acreage per household of the 67 households that are of rural family registration status and from Banqiao native is 4.7 *mou* (1.1 *mou* per person)<sup>3</sup>. This is more than the average of Banqiao, which is 3.4 *mou* per household and 0.9 *mou* per person. This implies that peasant households endowed with relatively large landholdings ( and consequently higher farm income) make use of their economic surplus for nonfarm activities.

### 2-3 Economic activities and business category (line of business)

Approximately half of the businesses were opened after 1995, which reflects the fact that the size of the commerce in Banqiao expanded rapidly in the latter half of the 1990s<sup>4</sup>. There is no significant relationship between the times when the businesses were opened and the business category, but a relatively high percentage of businesses dealing with processing/sales of agricultural and stock farm products opened in the 1980s, and with general merchandise and small hardware (*xiao baihuo* and *xiao wujin*) in the first half of the 1990s (approximately 35% of all businesses opened in the 1980s for the former, and approximately 35% in the first half of the 1990s for the latter). On the other hand, high percentages of apparel/shoes sales and restaurant/service businesses opened in the latter half of the 1990s (67% in the former case and 59% in the latter). From this, the following general development trend can be understood; the "general retail market" (*zonghe nongmao shichang*) was established in Banqiao in the early 1990s, and the opportunity was taken for a sort of traditional periodical market specializing in trading surplus agricultural and stock farm products to diversify<sup>5</sup>.

As a whole, the majority of the survey subjects carry out activities concentrated in Banqiao township. Among the 100 households surveyed, the majority -- 77 households -- conduct business every time or almost every time the periodical market is held in Banqiao (or conduct business in Banqiao every day). The rotations of the market activities are distributed as follows. 57 households only do business in Banqiao without going to other periodical markets, 12 households circulate the periodical markets in Banqiao and the county seat, 7 households circulate Banqiao, the county seat and Guishan, and 1 household circulate Banqiao, the county seat and Luliang (陸良) county. The rotation of the remaining 23 households is unknown (however, most of them are



considered to do business only in Banqiao)<sup>6</sup>.

By looking at the classification by year-round or seasonal business, it is seen that 70 households conduct business year-round and 30 households conduct business only seasonally; the year-round business forms the majority. However, at the same time 53 households, 76% of the family businesses conducting year-round business, answered that there are large seasonal fluctuations in the business. The busy season is concentrated in the agricultural off-season, from October to February, which is a good indicator of the characteristics of a rural periodical market.

Table 3 summarizes the relationship between business category trading item) and management form/business size as well as the basic characteristics of the entrepreneurs<sup>7</sup>. It is seen from the relationship between size of business and business category, that the turnovers of processing/sales of agricultural and stock farm products and general merchandise/small hardware are relatively large, and in contrast the turnovers of sales/repair of apparel/shoes are small.

**Table 3**    Structure of Family Businesses in Banqiao Township

Unit: %, figures in (    ) are numbers of households

Trading item	All samples	Management form		Business size (monthly turnover, yuan )		
		Seasonal	Year-round	Less than 3000	3000 to less than 6000	6000 or more
Processing/sales of agricultural and stock farm products	23.0	43.5	56.5	36.4	22.7	40.9
General merchandise/small hardware (including sales of food, alcoholic beverage, and tobacco)	21.0	14.3	85.7	28.6	19.0	52.4
Sales/repair of apparel/shoes	22.0	22.7	77.3	60.0	30.0	10.0
Restaurant/service	17.0	23.5	76.5	35.3	41.2	23.5
Sales of materials for agricultural production	3.0	33.3	66.7	66.7	0.0	33.3
Processing, sales, and repair of forest/metal products (agricultural implement, furniture etc.)	11.0	54.5	45.5	18.2	72.7	9.1

Others	3.0	33.3	66.7	33.3	66.7	0.0
Total	100.0	30.0	70.0	38.1	33.0	28.9
	(100)	(30)	(70)	(37)	(32)	(28)
		Pr=0.201		Pr=0.017		

Trading item	Individual characteristics of entrepreneur		Gender		Age	
	Educational level					
	Elementary or less	Junior high or more	Male	Female	35 years or younger	36 years or older
Processing/sales of agricultural products	65.2	34.8	60.9	39.1	43.5	56.5
General merchandise/small hardware (including sales of food, alcoholic beverage, and tobacco)	50.0	50.0	52.4	47.6	33.3	66.7
Sales/repair of apparel/shoes	54.5	45.5	36.4	63.6	36.4	63.6
Restaurant/service	35.3	64.7	35.3	64.7	47.1	52.9
Sales of materials for agricultural production	33.3	66.7	66.7	33.3	100.0	0.0
Processing, sales, and repair of forest/metal products (agricultural implement, furniture etc.)	27.3	72.7	72.7	27.3	81.8	18.2
Others	66.7	33.3	66.7	33.3	33.3	66.7
Total	49.5	50.5	51.0	49.0	46.0	54.0
	(49)	(50)	(51)	(49)	(46)	(54)
		Pr=0.348	Pr=0.308		Pr=0.070	

Source: Banqiao Family Business Survey.

Section 3 Merchant and Market: Uncertainties, Risks and Trade Relations

3-1 “Disorganized” market—viewpoint of the bazaar economy

*“Disorganized” market*

Family businesses in rural areas have both vulnerability and strength/flexibility. They are

vulnerable due to the small business size. At the same time they are strong and flexible because they are part-time farm-households, and supported by family solidarity. In this section, the vulnerability aspect of the family business is described. In addition to vulnerability issues common to dwarf economies in general, such as lack of preparedness for market fluctuations and low fund raising capacity, the management risks due to underdevelopment of the institutional infrastructure of the market are considered to jeopardize the family businesses in rural China. Here, the notion of underdevelopment of the institutional infrastructure of the market refers to immature rules and norms of trade, significant information problems and uncertainties in the market, problems in enforcing rules and norms of trade, and underdevelopment of the financial market etc.

This problem, which is referred to in Chinese as the market being *buguifan* (disorganized), is also seen in major coastal cities where the market economy is relatively developed. For example, in Shanghai the problem of "disorganized" wholesale/retail markets was taken up on the People's Congress of Shanghai in February 2000. Specifically, it was discussed that problems such as cheating with materials and quantities as well as me-too products and poor quality products spreading rapidly prevent the development of trade (Shanghai cable TV, *Baixing Shidian*, The Views of Commons on February 23, 2000). This is an example of a vicious cycle in which lack of trust in the trading rules induces shortsighted and opportunistic behavior of both seller and buyer, which in turn promotes further mutual mistrust. The problem of such a "disorganized" market can be summed up as a problem of asymmetry of information about the quality of traded goods/services; or, to put it in other words, the problem is that collecting sufficient information about the quality requires a disproportionate investment of resources.

### ***Bazaar economy***

In case of the survey area, this problem of having a "disorganized" market is considered to be very serious. This is not only because of the low level of economic development, but also because of the fact that the volume of market trading has been expanding rapidly in recent years and the structure of the business categories has been diversified as mentioned earlier. Then how do the family businesses in the survey area deal with the management risks caused by the problem of having a "disorganized" or under-institutionalized market? When considering this problem, the discussion by K. Geertz (1963) concerning the bazaar economy in Java (Indonesia) proves useful.

Geertz's discussion on bazaar economy can be summarized as follows (Geertz 1963, pp.32-47).

Bazaars look very chaotic at the first view, as "colorful and often aggressive bargaining" predominates the scene. However, three regulating mechanisms are working behind it. The first mechanism is the *sliding price mechanism*. This system provides the flexibility needed in a market institution where the economic condition is unstable and the distribution of economic information is asymmetric. The second mechanism is the *credit relationships* binding the traders. This mechanism gives the primary integrative or vertical vector in the bazaar economy, since it leads to a hierarchic ranking of traders in which larger traders (for example, wholesalers) give credit to smaller traders (for example, small retail dealers). These credit ties stabilize more or less persistent commercial relationships among traders. The third one is the mechanism of *fractionating risks*. Despite the aim of maximizing one's trading activities, there is also a tendency to spread oneself over a wide range of deals rather than to rely heavily on one partner. Contrary to the credit relationships, the mechanism of spreading the risks provides a disintegrative or horizontal vector in the bazaar economy.

What about the survey area, then? Let us examine it from two aspects, the sales activities and the purchasing activities of the family businesses.

### 3-2 Sales activities—price formation principle

Among the surveyed family businesses, 22 households answered that they had regular customers (clients), and 76 households answered that they did not have regular customers. As can be understood from this, the percentage of households having persistent trade relations in their sales activities is very low. It can be said that the sales activities of the majority of the family businesses have to do with a large number of unspecified customers that gather at the periodical market. In fact, at the time of the field survey, plenty of very lively face to face bargaining (*taojiahuanjia*) was observed between small-trade merchants and peasants. This is closely akin to the bazaar in Java observed by Geertz. Then how can a price formation process exist behind the temporizing aggressive bargaining in the periodical market of the survey area? Before starting to examine the data, the theoretical frameworks regarding price formation are organized in the

following three points according to Y. Hara who reevaluated Geertz from the standpoint of economic theory (Hara, 1985, pp.106-120).

First off, there are two poles in the price formation principles. One is the Walrasian auctioneer principle (prices are flexible, but converge to a single equilibrium price either by auction through auctioneers or through the mutually repeated process of contract, re-contract, and alliance among actors in the market). The other principle is full cost pricing (cost plus constant margin equals fixed price, supply and demand are adjusted through fluctuation of amount of stock and production, rather than price changes). Secondly, the Walrasian auctioneer principle postulates perfect information, but a certain constant price level can be formed even under imperfect information conditions through stabilizing allocation through arbitration, i.e., actors with large amounts of information repeating arbitration. The price formation in bazaar is a contract/re-contract process under imperfect information conditions and closer to this arbitration processes than to Walrasian auctioneer process.

There are sharp distinctions between the two price formation principles pointed out by Hara on the theoretical level, but in the actual periodical market trading, it is safe to assume that more than one principle coexist. This is because the degree of asymmetry of information about quality differs greatly depending on the types of goods/service. Hence, the following hypothesis can be formed.

- The price formation mechanism is influenced by the differences in the degree of asymmetry of quality information for each business category (or trading item). In the periodical market in the survey area, given the fact that no regular trade relations have been formed between the merchants and the peasants who are their customers, the greater the asymmetry of information about the goods is, the longer the process of "face to face bargaining" becomes and the more flexible the price is. Conversely, in case of items where the information about quality is widely shared, the bargaining process is short and the price converges easily to the "market rate".

Table 4 shows the relationship between business category and price determination method in order to verify this hypothesis. It can be seen from this table that the price formation mechanism differs depending on the business category. In sales/processing of agricultural and farm stock products, the massive majority determines the price based on "pricing by confrere" and "cost and purchase price," while scarcely anyone chose "face to face bargaining with customers" as an

answer. In contrast, "face to face bargaining with customers" was chosen frequently for industrial products, not as often as "cost/purchase price," but more often than "pricing by confrere." This result is consistent with the hypothesis and can be interpreted as follows. In case of agricultural and farm stock products which the peasants know inside out, there is relatively little room for "face to face bargaining," so the price quickly converges to pricing by confrere, that is, the "market rate." In other words, a pricing formation mechanism relatively close to the Walrasian auctioneer principle is being employed in this case. On the other hand, in case of goods/services originated in industries whose information concerning quality is very asymmetrical, the price is flexibly formed through the "face to face bargaining" process even though it is limited by the "cost/purchase price" and "market rate". It is safe to say that Geertz' "antagonistic interaction," i.e., opportunistic/selfish behaviors of merchants, is seen even stronger in this case.

**Table 4** Business Category and Price Formation Method

Unit: %, figures in ( ) are numbers of households

Price determination method	Total	Business category Sales/processing of agricultural and farm stock products	Sales/processing (and repair) of industrial products	Restaurant/service and others
Cost/purchase price	90.7	95.7	93.0	76.5
Recent sales price	6.2	0.0	10.5	0.0
Pricing by confrere	58.8	100.0	36.8	76.5
"Face to face bargaining" with customers	30.9	4.3	42.1	29.4
Regular customers' wish	1.0	0.0	0.0	5.9
Others	5.2	0.0	7.0	5.9
	(97)	(23)	(57)	(17)

Note: Multiple items (within two items) were selected.

Source: Banqiao Family Business Survey.

### 3-3 Purchasing activities—strategies for avoidance of risks

Out of the 100 family businesses surveyed, 82 households purchase goods and raw materials and 18 households do not. That is to say, the vast majority of family businesses are buyers at the places of purchasing activities (e.g., wholesale markets). Their most representative buying place is the Luoshiwan wholesale market (*luoshiwan riyongpin pifa shichang*) in Kunming. This wholesale market is the second largest apparel/convenience goods wholesale market in the country with 150 to 200 thousands visitors per day. 28 of the 82 households with purchasing activities answered that this market is their main purchasing place. Other purchasing places included other markets in Kunming such as the Shuanglongqiao wholesale market as well as markets in Shilin county seat and Yiliang county seat. In such large-scale markets, the family businesses in Banquiao township are merely petty customers without market information, who do not have enough power to negotiate prices.

In that case, how do they reduce their management risks? For instance, how do they avoid the possibilities of purchasing poor quality goods or purchasing goods at too high a price? Using the above-mentioned regulating mechanisms found at bazaars in Java, the following hypothesis can be formed.

- The efforts by the small family businesses to reduce their management risks can be largely divided into two. One is risk spreading, in other words, an effort to spread the trading partners over a wide range (hereinafter referred to as the risk spreading strategy). By using this strategy, one can cover the loss caused by being cheated by one wholesaler by trading with other wholesalers. The second effort is to plunge into persistent trade relations with a small number of trading partners (hereinafter referred to as the persistent trade relation strategy). This is a mechanism in which opportunistic behaviors of traders on both sides are suppressed by their expectation toward steady growing businesses.

In case of Java's bazaars, the former strategy was the main, if any. Geertz pointed out that there is a tendency, even in credit relationships among merchants, which is the integrative factor in bazaar economy, to restrict the total amount of credit given to one partner to the range "large enough, but not too large" (Geertz 1963, pp.37-38). According to Geertz, spreading risks (and profits) is a 'habitual reaction' of small traders, who have significant information problem (Geertz 1963, p.42). What kind of strategy is employed in the survey area, then? Before examining this

question, two case examples of interviews conducted by the author at the periodical market in Guishan are presented.

[Interview case 1]

This shoe retailer opened the business in the early 1996, by renting a room (approximately 15 m<sup>2</sup>) on the first floor of a two-storied cement building. The entrepreneur is a 20-year-old female peasant in Guishan, who graduated from a junior high school. Since she keeps a fixed store, she does not circulate other periodical markets. The monthly sales are around 3000 yuan on average. Her parents are full-time farmers and her elder brother runs a chemist in the next door. She purchases goods, mainly Wenzhou, Zhejiang made, at the Luoshiwan wholesale market in Kunming. She visits many wholesalers on a case-by-case basis as she does not have any particularly close wholesalers (December 1997).

[Interview case 2]

This apparel retailer sells underwear, socks, shirts, blouses etc. She rents one block of *tanwei* (selling space) and runs her business there. The entrepreneur is a 34-year-old female peasant from Lumeiyu township, who graduated from junior high school. Her husband is a full-time farmer. In the agricultural off-season, she circulates several periodical markets in the county, but in the busy season of tobacco growing, she closes the business or runs the business only in the markets in Guishan township. Once every half month, she purchases goods at the Luoshiwan wholesale market in Kunming. She has persistent trade relations with 7 to 8 wholesalers (suppliers from Sichuan, Hunan, and Zhejiang). The main advantages of having regular suppliers are that the quality of the goods can be guaranteed (if there are problems with the quality, the suppliers with whom she has a close relationship will allow her to return goods) and that they will wholesale at relatively low prices (December 1997).

As can be understood from these cases, there are differences in the trade relations even among traders who purchase goods from the same wholesale market. It seems that the former trader employs the risk spreading strategy while the latter the persistent trade relation strategy. Now let us examine whether or not the 82 households that carry out purchasing activities have persistent



trade relations with their suppliers. 19 households (23% of the total) purchase 75% or more of their gross purchase from regular suppliers, 3 households (3.6%) purchase between 50 and 75%, 5 households (6.1%) purchase between 25 and 50%, 5 households (6.1%) purchase less than 25%, and 50 households (61%) have no regular suppliers at all. From this observation, two points can be pointed out. Firstly, unlike the case of sales activities, a little under 40% of the family businesses have persistent trade relations with suppliers. Secondly, as a whole, the family businesses are divided into two opposite poles, a group without any regular suppliers and a group that depends on regular suppliers to a considerable degree. In that case, then, what factors influence the choice of strategy for risk avoidance by family business entrepreneurs?

### **3-4 Choice of the risk avoidance strategy**

#### ***One model***

Let us examine a model based on the hypothesis that management characteristics of family business and personal characteristics of the entrepreneur determine the strategy for management risk avoidance. The dependent variable is degree of risk spreading. More specifically, weight of amount of goods purchased from regular suppliers in the gross purchase (in ordinal form; 0%=5, 25% or less=4, 25-50% or less=3, 50-75% or less=2, 75% or more=1). The smaller this weight is, the stronger the tendency to adopt the risk spreading strategy. Conversely, the greater this weight is, the stronger the tendency to adopt the persistent trade relation strategy.

Firstly, as explanatory variables that represent the management characteristics, three variables are employed, namely business size (average monthly sales volume), years in business, and business category. To cite from Geertz's discussion on bazaar economy, it is considered that the smaller the business size is, the stronger the tendency to adopt the risk spreading strategy is. If that is the case, the coefficient of business size is expected to be negative. Regarding years in business, the longer the experience with activities in market is, the more personal relations accumulate; thus the higher the possibility that the persistent trade relation strategy is adopted is. If that is true, the coefficient of years in business is expected to be negative. Finally, regarding business category, a dummy variable that sets traders engaged in sales/processing of industrial products to 1 and others to 0 is employed. As the information problem for family business of peasant origin is larger in industrial products than in agricultural/farm stock products, the sign of

this dummy variable is expected to be positive.

Secondly, with respect to the personal characteristics of the entrepreneurs, five of the variables employed in Section 2 are included in the model. (a) Political capital; whether or not one has experience as a party member/grassroots cadre. (b) Experience with working in formal economic organizations, that is to say, experience as a manager in TVE or experience with working in state marketing department/supply and marketing cooperative (SMC). (c) Educational level. (d) Long-term (more than one year) experience in living outside the home township. (e) Household registration status.

**Table 5** Factors Influencing the Choice of Strategies for Avoidance of Risks  
(Multiple Regression Analysis)

	Coefficient	T-statistics	P>t
Monthly sales volume (1000 yuan)	-0.246	-4.447	**
Years in business (years)	-0.038	-1.105	
Industrial product dummy	0.591	2.042	*
Experience as a party member/grassroots cadre	-2.682	-5.548	**
Experience in formal economic organizations	-1.878	-2.578	*
Long-term experience outside the home township	0.014	0.042	
Educational level	-0.082	-0.357	
(ordinal variable, same as table 2)			
Household registration status (rural=1, urban=2)	-0.907	-1.768	
Constant	6.191	7.073	
Adj. R-squared	0.397		
Number of obs.	87		

The dependent variable is weight of amount of goods purchased from regular suppliers out of gross purchase (0%=5, 25% or less=4, 25-50% or less=3, 50-75% or less=2, 75% or more=1).

\*\*means significant at a 1% level, \*means significant at a 5% level.

Source: Banqiao Family Business Survey.

**Outcomes**

Table 5 shows the multiple regression models obtained from the above-mentioned assumptions. From this table, the following points can be understood. First of all, among the variables for management characteristics, business size and business category show effects that conform to the

assumptions of the model. Smaller family businesses or traders dealing with industrial products have a higher tendency to adopt the risk spreading strategy. Years in business, however, had no relationship with the choice of strategy for avoidance of management risk. Secondly, regarding the personal characteristics of the entrepreneurs, those entrepreneurs who have experience as a party member/grassroots cadre or experience with working in formal economic organization have a higher tendency to adopt the persistent trade relation strategy. Here, entrepreneurs who have experience as a party member/grassroots cadre (11) and those who have experience with working in formal economic organization (4) do not overlap at all. Then, what do these two personal characteristics have in common underneath? The author hypothesizes that personal networks accumulated through activities in the party-administrative apparatus and formal economic organizations enabled these entrepreneurs to develop reliable, regular suppliers. In other words, these two variables seem to represent “network capital” in the market. With enough network capital, it is effective to adopt the persistent trade relation strategy (or to combine both strategies). It is seen from table 5 that, even though the degree of significance is low, the entrepreneurs with urban household status have a higher tendency to adopt the persistent trade relation strategy. This result can also be interpreted by the factor of connection with wholesale markets in cities.

Based on the fact-findings mentioned above, the next section elaborates on the discussion on implications of the persistent trade relation strategy. Questions to be considered include ; what are the economic benefits of this strategy? Do entrepreneurs with network capital hold advantageous positions in the markets? Also, other than network capital, does any social ties exist behind the persistent trade relation strategy?

## **Section 4. Persistent Trade Relation Strategy, Network Capital, and Political Capital**

### **4-1 Advantages of the persistent trade relation strategy**

To begin with, let us identify the economic advantages of the persistent trade relation strategy. The traders of the interview case 2 mentioned not only guarantee of goods quality but also lower purchase price as advantages of having regular suppliers. Do the advantages of the persistent trade relation strategy differ depending on business size and category, then? Let us examine this using table 6.

Table 6. Manegement Characteristics and Advantage of Having Persistent Trade Relations

Unit: %, figures in ( ) are numbers of households

		Business size (monthly sales volume)		Business category		
	Total	Less than 6000 yuan	6000 yuan or more	Processing/sales of agricultural and stock products	Sales/processing (and repair) of industrial products	Restaurant/service and others
Traders whose purchase amount from regular suppliers is 50% or more of the gross purchase. (%)	26.8	20.7	47.6	53.8	16.7	30.8
(Total number of households)	(82)	(58)	(21)	(13)	(54)	(13)
Advantage of having regular suppliers (Ratio of people selected each item %) *1)						
1. Lowering purchase price	40.6	31.6	53.8	75.0	23.5	60.0
2. Guarantee of goods quantity	50.0	42.1	61.5	75.0	47.1	20.0
3. Avoiding trouble of “face to face bargaining”	31.3	36.8	23.1	25.0	29.4	40.0
4. Guarantee of goods quality	46.9	52.6	38.5	12.5	58.8	60.0
5. Purchasing on credit is possible	15.6	15.8	15.4	0.0	17.6	20.0
6. Access to market information	6.3	5.3	7.7	12.5	5.9	0.0
7. Others	6.3	10.5	0.0	0.0	11.8	0.0
(Total number of households)	(32)	(19)	(13)	(8)	(17)	(5)
*1) Traders who have regular suppliers only (including traders whose purchase amount from regular suppliers is 50% or less of the gross purchase). Multiple answers (maximum two items, however).						

Source: Banqiao Family Business Survey.

It is not a statistically significant differences, but relatively speaking it appears that the small-size family businesses regard quality assurance of purchased goods and avoiding price negotiation as the primary reasons while the large-scale family businesses regard lowering the purchase price and securing sufficient purchase quantities as the main advantages. In other words, it seems that the former group is motivated more by defensive reasons, needing to save transaction costs incurred by asymmetry of information, while the latter is motivated more by aggressive reasons, wishing to lower the purchase price by taking advantage of bargaining power backed up by the

business size.

By business category, the major advantage (reason) for having regular suppliers is the “guarantee of goods quality” for industrial products. In contrast, in case of agricultural/farm stock products, the major reasons are “lowering purchase price” and “guarantee of goods quantity,” and the “guarantee of goods quality” is not as important. This fact implies that there is some relationship between the asymmetry of information regarding quality and the formation of persistent trade relations. That is to say, in case of industrial products, where the degree of uncertainty regarding quality is higher, the family businesses seem to try to alleviate the risks through relationships of mutual trust with regular suppliers.

#### **4-2 Formation mechanism of persistent trade relations**

##### ***Within, or outside the bazaar***

The formation of persistent trade relations itself is a phenomenon that is observed very commonly regardless of differences in region and economic development level. However, the formation mechanisms vary depending on the characteristics of the region, the maturation of the market economy etc. According to the review by Hara (1985, pp. 120-121), discussions concerning the mechanism behind the persistent trade relations in rural markets are largely divided into two. One explains the mechanism within the pure economic behavior of small traders. Geertz himself took notice of the fact that the large-scale merchants form networks of trade relations through credit accommodations to other merchants in Java's bazaar. The other, on the contrary, postulates that social relations already existing outside the market are brought into the market. For example, the study by W. Davis targeting bazaars in Baguio (Philippines) points out that the traditional forms of social ties in rural society, such as kinship relations and shared territorial bonding, are the foundation for the trade relations in the bazaars (Davis 1973). Also, T. Nakanishi's study on small bazaars in inner cities, Manila indicates that trading networks are formed among sellers and buyers from the same province (Nakanishi 1991).

How are trade relations formed in the survey area, then? If we look at the credit accommodation relations between merchants first, it is found that the majority of the family businesses in Banqiao township purchase goods by cash and only few of them have credit transaction relations with wholesalers. Among the 32 households who answered that they have

regular suppliers, only 5 family business entrepreneurs chose "purchasing on credit is possible" as an advantage<sup>8</sup>. The formation mechanism of persistent trade relations through credit accommodation is not common in the survey area.

From table 6, again, which shows the ratio of traders who adopt the persistent trade relation strategy by business category, it can be seen that sales/processing of agricultural and farm stock product business has a significantly higher ratio compared to other business categories ( $P=0.018$ ). This fact suggest that there is a possibility that personal connections in rural areas are utilized in trades of agricultural and farm stock products. However, ties by kinship relations/shared territorial bonding are scarcely involved there. Out of the 32 households with regular suppliers, 28 households answered that their trading partners were sole traders/peasants. Their relations with the trading partners are: 1 household with blood relations, 0 households with shared territorial bonding (neighbors in the same village), and 1 household with other friends as trading partners. In short, the formation of networks through social relations already established outside the market is very scarce. It seems like neither Geertz's nor Davis's interpretation can be applied to the survey area as it is. The scarce involvement of kinship relations can be explained by the fact that the lineage ties is loose and weak in survey area. Also, one of the reasons for the scarce involvement of territorial bonding can be found in the fact that the traders' home villages are dispersed among many villages. A situation where a majority of peasants in a certain village engage in family businesses of mutually related business categories, seen for example in Wenzhou (see Sato 1994), cannot be found in the survey area.

#### ***"Neo traditional" relations***

It can be understood from table 7 that, in case of entrepreneurs with network capital, a higher percentage of regular trade relations are formed with non-individuals. More specifically, they have trade relations with the formal economic entities such as state marketing department, the Supply and Marketing Cooperatives (SMC), SOEs, TVEs, and other collective economic entities at township and village level (*shequxing hezuo jingji zuzhi*). This fact supports the above-mentioned hypothesis on network capital, that is to say a socio-political networking through experience in grassroots party/government apparatus and formal economic organizations helps to form persistent trade relations. If social relations based on blood relations or shared territorial bonding are called "traditional" social relations, the socio-political networking found in Banqiao

can be called a "neo traditional" one, which has been formed under the institutional/organizational framework of the party-state system.

**Table 7** Network/Political Capital and Types of Persistent Trading Partners

Unit: % numbers in ( ) are numbers of households

	Total	Network capital		Political capital	
		Experience as a party member/grassroots cadre or working in formal economic organizations		Experience as a party member/grassroots cadre	
		Yes	No	Yes	No
Individuals *1)	77.8	50.0	88.5	42.9	86.2
Non-individuals *2)	22.2	50.0	11.5	57.1	13.8
Total	100.0	100.0	100.0	100.0	100.0
	(36)	(10)	(26)	(7)	(29)
		Pr=0.013 Fisher's exact =0.024		Pr=0.013 Fisher's exact =0.030	

Note \*1) Individuals: Peasants and family businesses. \*2) Non-individuals: State marketing department, SMCs, SOEs, TVEs, and other collective economic entities at township and village level (*shequxing hezuo jingji zuzhi*).  
Source: Banqiao Family Business Survey.

4-3 Advantages of network capital and political capital

*Accessibility to financial market*

Are entrepreneurs with network capital, then, in advantageous positions in markets? An advantage of entrepreneurs with network capital is that they have two strategies to choose one of them (or mix together). The question is whether or not the selected strategies lead to good management performance. Unfortunately, it is impossible to conduct a quantitative analysis of management performance of family businesses here. This is because detailed questions regarding cost and profit were not asked in the Banqiao family business survey in order to obtain cooperation from the subjects. Therefore, the advantage of having network capital is examined here from the point of another important management activity, fund procurement.

As in other rural areas, the rural financial markets in the survey area are structured in two tiers, an organized (formal) financial market and an unorganized (informal) financial market. The

organized financial market is composed of formal financial institutions, more specifically banks, the Rural Credit Cooperatives (RCC), and the community credit organizations (*nongcun hezuo jijinhui*). In case of the survey area, the unorganized financial market mainly consists of money loans among blood relatives and relatives by affinity. Among the 100 samples, 53 households had loans. Borrowing money from the unorganized financial market accounts for a large percentage, approximately 72%, 38 households. 30 of 38 households were borrowing from blood relatives<sup>9</sup>. On the other hand, there were 25 households that were borrowing from the organized financial market, approximately 47%<sup>10</sup>.

The problem often pointed out about rural financial markets in China is that the rigidity of the organized financial market restricts the development of family businesses. Banks and the RCC finance large-scale TVEs but are reluctant to finance funds to individuals. Because of this, a large number of family businesses rely on the unorganized financial market. The unorganized financial market, however, has limitations such as a limited financing scale and being unsuitable for continuous fund procurement. From the survey result of Banqiao township as well, it is noted that financing between blood relatives is no more than 6 thousand yuan and financing exceeding 10 thousand yuan is almost limited to banks and the RCC. Moreover, loans from individuals are mainly applied to the startup capital; the ratio of entrepreneurs with personal loans decrease as years in business become longer.

Based on the facts mentioned above, the accessibility to the organized financial market can be considered as an index by which to measure the advantage of family businesses in the market. Accordingly, it was put to the test in a logit model. The dependent variable is whether or one has loans from the organized financial market (yes=1, no=0). Four explanatory variables are employed: management characteristics related to capital needs (business size, years in business, and entrepreneur's desire to expand business), management characteristics related to credit rating (business size and years in business), characteristics of the entrepreneur (experience as a party member/grassroots cadre, experience in formal economic organizations, and educational level), and a business category dummy (restaurant/service business)<sup>11</sup>. Moreover, for comparison, a model that sets the dependent variable to whether or not one has personal loans was calculated at the same time.

The result is shown in table 8. From this table, it can be confirmed that political status makes



access to the organized financial market easier. In case of entrepreneurs with experience as a party member/grassroots cadre, it is considered that their personal connections with the RCC, banks, the community credit organizations, and related government agencies plus the credit rating backed up by their political status make access to the organized financial market easier. What is interesting here is that political position has a positive influence on the access to the unorganized financial market as well. In contrast, experience with working in formal economic organizations has no influence on the accessibility to the financial markets. In sum, it seems that entrepreneurs with political capital can be extracted as a distinguished group. In other words, the significance of political status cannot be explained sufficiently well only by network capital in general.

**Table 8** Logit Estimation of Factors Influencing the Accessibility to Rural Financial Market

Explanatory variables	Organized Market		Unorganized Market	
	Coefficient	Z-statistics	Coefficient	Z-statistics
Monthly sales volume (1000 yuan)	0.138	1.002	-0.035	-0.301
Years in business (years)	0.015	0.180	-0.220	-2.792 *
Desire to expand business *1)	1.900	2.357 *	-0.626	-1.147
Restaurant/service business dummy	2.354	3.070 **	0.569	0.861
Experience as a party member/grassroots cadre	2.581	2.612 **	1.841	2.145 *
Experience in formal Economic organizations	1.638	1.130	0.751	0.500
Educational level	0.256	0.496	-0.284	-0.703
Constant	-7.547	-3.097 **	2.055	1.413
Pseudo R-square	0.295		0.156	
Number of obs.	83		83	

The dependent variable is whether (=1) or not (=0) the entrepreneur has loans from organized(1) or unorganized(2) financial market. The organized market includes banks, the RCC, and the community credit organizations(*nongcun hezuo jijinhui*). Unorganized market means borrowing funds from individuals.

Note: \*1) Desire to expand business: Desire to expand=3, keep status-quo=2, wish to scale down=1

\*\*means significant at a 1% level, \*means significant at a 5% level.

Source: Banqiao Family Business Survey.

***Profile of entrepreneurs with political capital***

Then, is it possible to describe the entrepreneurs with political capital as a group that can be distinguished from others in the aspects of personal characteristics and management

characteristics as well? Table 9 examines this point. When entrepreneurs with political capital are compared with entrepreneurs without political capital, the former group is slightly older, but other than that there is no significantly recognizable difference in personal and management characteristics. However, a difference is seen in their management attitude. In particular, many of the entrepreneurs with political capital list pull factors for better economic opportunities as a motivation for starting business and have a stronger desire to expand the business. On the other hand, a large percentage of the entrepreneurs without political capital started the business because they wanted to “compensate the income” and wish to keep the business size as it is or reduce it. It is safe to put the entrepreneurs with political capital together as a group that is more active and filled with entrepreneurship<sup>1 2</sup>.

**Table 9** Profile of Entrepreneurs with Network Capital and Political Capital

Characteristics	Network capital		Political capital	
	Yes	No	Yes	No
Age: 35 years old or less (%)	33.3	48.2	18.2	49.4
		Pr=0.286	Pr=0.050, Fisher's exact=0.060	
Educational level: junior high school or 60.0 more (%)		48.8	45.5	51.1
Gender: male (%)	80.0	45.9	72.7	48.3
	Pr=0.015, Fisher's exact=0.023		Pr=0.127	
Size: monthly sales volume of 6000 yuan or more (%)	28.6	26.5	20.0	27.6
Average years in business (year)	5.1	5.1	4.9	5.1
Business category: agricultural/farm stock product related (%)	20.0	24.4	27.3	23.3
Industrial product related (%)	66.7	57.3	54.5	59.3
Desire to expand business: having desire to expand (%)	33.3	16.5	45.5	15.7
	Pr=0.125		Pr=0.018, Fisher's exact=0.032	
Motivation to start business (multiple answers)	46.7	28.2	54.5	28.1
(a)had know-how (%)				
(b)to compensate income (%)	20.0	41.2	18.2	40.4
(c)had desire to become rich (“fajiazhifu”)	45.5	32.6	46.7	31.8

Source: Banqiao Family Business Survey.

## Section 5 conclusion

The discussion in this chapter can be summarized as follows.

(1) Through the comparison with the nationwide survey, it was shown that working and living away from home --accumulation of human capital in a broad sense-- is an important source of entrepreneurship in inland, mountainous areas such as the survey townships.

(2) This chapter analyzed the price formation strategy and risk avoidance strategy adopted by family business entrepreneurs using Geertz's discussion on the bazaar economy in Java as a reference framework. For the price formation, the existence of the sliding price mechanism under imperfect information was confirmed. Concerning the risk avoidance strategy, factors influencing the choice of strategy--the risk spreading strategy or the persistent trade relation strategy-- was examined. From the analysis, entrepreneurs with network capital (entrepreneurs who have experience as a party member/grassroots cadre or experience working in formal economic organizations) were identified as a group who adopt the persistent trade strategies. They strive to reduce the management risks taking advantage of the socio-political network cultivated through their experience in party/government apparatus and formal economic organization.

(3) Moreover, entrepreneurs with political capital (those who have experience as a party member/grassroots cadre) could be singled out as a characteristic group. This group is active management attitude and is filled with entrepreneurship. The characteristics of China's marketization are clearly shown in the facts that one of the important driving forces of entrepreneurship in the bottom end of the rural market arises from within the institutional/organizational framework of the party-state system, or the legacy of the Mao era.

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<sup>1</sup> Shilin county was named Lunan (路南) county formerly.

<sup>2</sup> The distribution of home villages is as follows: 74 within Banqiao township, 18 belonging to other townships.

<sup>3</sup> 15 *mou* is equivalent to 1 hectare.

<sup>4</sup> The times when the businesses were opened is distributed as follows: 9 households opened their businesses from 1980 to 1984, 10 households from 1985 to 1989, 26 households from 1990 to 1994, 9 households in 1995, 21 households in 1996, 18 households in 1997, 4 households in 1998, and 3 households at an unknown date.

<sup>5</sup> Establishment of the "general retail market" was financed by county government (interview at the county business administration bureau in December 1995). In Guishan township as well, the new marketplace construction was promoted in the same period as in Banqiao. More specifically, in Guishan, the Dongdajie market was constructed from 1993 to 1994, and later in 1997, the street stalls that spread along main roads moved to the marketplace (interview at Guishan township business administration bureau in December 1997).

<sup>6</sup> Data for direct comparison with this case in Banqiao cannot be found. However, in a vegetable retail market in Baoji, Shaanxi Province, for example, the percentage of family businesses that circulate multiple markets is

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no more than 25% (Shi Yizhao 1995, pp.165-166).

<sup>7</sup> Note that the business category used here is not the business category classification based on the statistics by the business administration bureau, which was used at the sampling (see Section 1), but reorganized by the author based on the main line of businesses. This is the business category classification that will be used in the analyses below.

<sup>8</sup> The author's interview at the food product wholesale market in Yiliang county also shows that the relationship between wholesalers and retailers basically take the form of cash transactions, and credit transactions are limited to a small portion (December 1997).

<sup>9</sup> The breakdown is: 27 households borrow from blood relatives, 8 households from individuals other than blood relatives (friends, neighbors), and 3 households from both blood relatives and non-blood relatives.

<sup>10</sup> The breakdown is: 18 households borrowed from the Rural Credit Cooperatives, 3 from banks, 2 from both the RCC and bank, and 2 from the community credit organization.

<sup>11</sup> The restaurant/service business dummy is added because the ratio of family businesses that obtain bank financing is the highest for restaurant business, according to the national business survey.

<sup>12</sup> The reasons behind this are not only the fact that activities in party-government apparatus helped them to accumulate human capital in a broad sense, but also the fact that the peasants absorbed in the party-government apparatus were competent to begin with.